MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 6, 2016/2017

BAC7034 – ADVANCED TAXATION

(MACC Weekend)

18 JUNE 2017
10.00 a.m – 1.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 10 pages including this cover page, with FIVE (5) Questions only.

2. Answer **ALL** questions. The distribution of the marks for each question is given at the end of each question.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) Farah Industries Sdn Bhd ('the company') is a resident Malaysian manufacturing company engaged in the manufacture of various kinds of beauty soaps. It commenced business in 2010 with a paid up capital of RM2 million. The company closes the accounts to 31 December each year.

For the financial year ended 31 December 2016, the company had produced the following results:

Farah Industries Sdn Bhd
Income statement for the year ended 31 December 2016

	Note	RM'000	RM'000
Sales			352,000
Less: Cost of sales			187,000
Gross profit			165,000
Add: Other income			
Dividend	1	22	
Interest	2	11	
Insurance recovery	3	20	53
			165,053
Less: Expenses			
Salaries and wages	4	991	
Loan interest	5	73	
Entertainment	6	110	
Depreciation		66	
Repair and maintenance	7	187	
Bad and doubtful debts	8	385	
Motor vehicle expenses	9	70	
Lease payments	10	80	
Advertisement	11	568	
Professional fees	12	35	
Insurance	13	44	
Foreign exchange loss	14	20	
Donation	15	2,010	4,639
Profit before taxation			160,414

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The following information is available in respect of the abovementioned financial statement:

1 Dividend

This is a single tier dividend received from an investment in a Malaysian public listed company.

2 Interest

The interest was received from two major foreign suppliers of raw materials, with whom the company had placed deposits of money as security for their supply. The interest was not remitted to Malaysia.

3 Insurance recovery

The amount represents the net recovery from an insurance company for manufactured goods and raw materials destroyed in a recent flash flood at the factory premises.

4 Salaries and wages

Included under 'Salaries and wages' are director's fee of RM250,000 and RM10,000 being the cost of an all-expenses paid trip to Indonesia for him and his family. The director holds 50 per cent of the company's equity.

5 Loan interest

This is made up of RM23,000 paid for the investment in the shares of a public listed company; and RM50,000 being interest charges for a working loan obtained in 2015 from a local bank.

6 Entertainment

The entertainment expenditure consists of the following:

(i) RM10,000 on the company's annual dinner for staff; and
(ii) RM100,000 being disbursement of entertainment expenses to the marketing staff incurred in the course of the business.

7 Repair and maintenance

The expenditure includes RM150,000 incurred during the year on the extension of the company's administrative building which is a separate block from the factory. The balance refers to general repairs and general maintenance of the plant and machinery used for the purpose of the manufacturing.

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8 Bad and doubtful debts

During the financial year, the company wrote off RM50,000 in respect of trade debtors who had died, declared bankrupt or had absconded. A general bad debts provision of RM200,000 was made for balances outstanding for more than six months; and another RM135,000 was provided for specific debtors whose financial position was not healthy. The company had stopped supplying goods to these customers with effect from 1 November 2016, and had issued legal notice demanding payment.

9 Motor vehicle expenses

Parked under motor vehicle expenses is RM20,000 that relates to traffic compounds and fines for various traffic offences committed by the company drivers. Motor vehicle maintenance consists of RM50,000 being repairs, spares, insurance, and road tax for the company's fleet of lorries.

10 Lease payments

Details of the lease payments are as follows:

Asset type	Original cost when new	Payments in 2015	Payments in 2016
	RM'000	RM'000	RM'000
Machinery	500	40	50
Luxury motor car	860	30	30

The car is used to ferry VIP visitors and special customers in the course of the carrying on of the business.

11 Advertisement

RM168,000 refers to advertising the company's products in local newspapers, magazines, and radio stations. RM400,000 was spent on promoting the company's own branded soap products (the trademark is owned by the company) on the local television stations.

12. Professional fees

RM10,000 was incurred on collecting outstanding trading debts. RM25,000 was the legal fees incurred to appeal to the Special Commissioners of Income Tax in respect of an additional assessment raised on the company for the year of assessment 2014 arising from a field audit by the revenue authorities.

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13. Insurance

Freight insurance totaling RM19,000 were paid to a local insurance company for import of raw materials. The balance of the insurance charges of RM25,000 refers to fire and flood policies on the company's stock, plant and machinery and factory building.

14. Foreign exchange loss

At the end of the financial year, there was an unrealized loss of RM8,000 and a realized loss of RM12,000 on account of raw materials imported from India.

15. Donation

The company donated cash of RM1,800,000 to an approved Malaysian charitable institution, and spent another RM210,000 in sponsoring a foreign art show in Kuala Lumpur in support of a local charity.

16. Capital allowance

The company is entitled to capital allowance RM2,364,000 for the year of assessment 2016.

Required

Based on the information given, compute the chargeable income of Farah Industries Sdn Bhd for the year of assessment 2016.

Note

Your computation should start with the net profit and follow the description used in the financial statement; and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made, or are not required to be made. You do not have to explain the adjustments that you are making, or not making, in the computation.

(15 marks)

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(b) A Malaysian manufacturing company, Nik Manufacturing Sdn Bhd ('the company') is a manufacturer of processed foods. It is a successful company having been in business for several years and is famous for its quality products. The company plans to diversify its product base and as an initial step, is contemplating the production of chilli sauce. The company's marketing manager was asked to study the matter, and he reported back to the company's Board of Directors in October 2016 with two options:

Option 1

Commence a new business to produce chilli sauce. This will involve substantial investment on new buildings, plant and machinery, storing facilities and recruitment of skilled staff as well as establishing the necessary marketing and distribution network for chilli sauce.

Option 2

Acquire an existing company, Malik Chilli Sauce Sdn Bhd that was producing quality chilli sauce at its own factory, and has some established marketing infrastructure in place. However, due to financial mismanagement, it had sustained large losses over the last four years. For the year of assessment 2015, Malik Chilli Sauce Sdn Bhd had accumulated losses of RM4 million and unabsorbed capital allowance of RM1 million.

The directors of Nik Manufacturing Sdn Bhd had discussed the matter at the meeting and are tempted to go with Option 2. However, the company's accountant at the meeting highlighted the danger of that second option.

Required

With reference to the Income Tax Act 1967 (as amended), explain briefly:

(i) Why do you think the directors are tempted to go with Option 2?

(2 marks)

(ii) What do you think are the possible dangers that could have been highlighted by the company's accountant at the meeting?

(3 marks)

Note: Your answer should refer to the relevant sections of the Income Tax Act 1967 (as amended) and case laws where appropriate.

[Total marks: 20]

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QUESTION 2 (20 marks)

(a) Syarikat MK Sdn Bhd is a locally incorporated company ('the company') with a paid up capital of RM8 million, that was granted a pioneer status with the production date set at 1 January 2016. The company closes its accounts to 31 December each year. For the year ended 31 December 2016, the pioneer business (Business 1) had an adjusted income of RM5,000,000 and was entitled to a capital allowance of RM 200,000.

The company also carries on another business (Business 2) which does not enjoy any incentive under the Promotion of Investment Act 1986. Business 2 has an adjusted loss of RM1,500,000 and an unabsorbed capital allowance of RM1,700,000 for the year of assessment 2016. The company has a property from which the adjusted rent for the year ended 31 December 2016 was RM2,000,000. Interest of RM800,000 from investments in bonds was received in September 2016.

During the basis period for the year of assessment 2016, the company made a donation of RM400,000 to an approved charitable institution in Malaysia. The company declared a tax exempted dividend of RM1 million for the financial period ended 31 December 2016 to its shareholders.

Required

In respect of Syarikat MK Sdn Bhd:

(i) Determine the chargeable income for the year of assessment 2016;

(7 marks)

(ii) Compute the balance of exempt income to be carried forward to the year of assessment 2017, assuming that the balance brought forward in that account as at 1 January 2016 was 'Nil'.

(3 marks)

(b) Syarikat Danny Sdn Bhd (the company) has been in business for several years and closes the accounts to 31 December each year. For the basis year ending 31 December 2016, it has an adjusted income of RM500,000. The company had incurred qualifying expenditure of RM480,000 on heavy plant and machinery (old asset) in the year of assessment 2015. The company had in May 2016, incurred RM360,000 on plant and machinery (new asset) on a new project that qualifies for reinvestment allowance of 60% (and restricted to 70% of the statutory income), under Schedule 7A of the Income Tax Act 1967 (as amended).

Required

(i) Compute the chargeable income of Syarikat Danny Sdn Bhd for the year of assessment 2016?

(7 marks)

(ii) What is the maximum amount of exempt dividend that the company could pay based on the balance in the exempt as at 31 December 2016? (Assume the opening balance was 'Nil').

(3 marks)

[Total marks: 20]

Continued ...

QUESTION 3 (20 marks)

(a) Nik Industries Sdn Bhd ('the company') is a local resident company manufacturing electric components for export to the United States. In early May 2016 the company entered into an agreement with a company in the United States to supply and install machineries for the production of a special component. The agreement also provides for technical assistance in the production of the component. The machine will be delivered and installed on or before 30 May 2016. Arising from the arrangement the company incurred the following expenditure, with the payments to be remitted to the United States as follows:

	Particulars	Amount (RM)	Deadline for payment
(i)	Supply of machineries	800,000	1 June 2016
(ii)	Services - installation of machineries	200,000	30 May 2016
(iii)	Technical assistance - production of special component	500,000	31 December 2016

Required:

Explain whether withholding tax would apply to the payments to be remitted to the United States, indicating the amount of withholding tax and when such taxes as withheld should be remitted to the Malaysian revenue authorities.

(10 marks)

(b) Mr. Raman signed an agreement with Ms. Pushpa on 11/8/2013 for the purchase of a bungalow. The full consideration of RM613,781 was made on 11/9/2013 and the property was transferred to Mr. Raman on 11.10.2013. Mr. Raman had incurred stamp duty of RM12,413 and legal fee of RM33,695 to acquire the property. Mr. Raman extended the back portion of the house after his purchase at a cost of RM88,330. He received a compensation of RM52,934 from the developer; and insurance money of RM19,690 for damages to the house arising from floods. He also incurred legal fee of RM7,197 defending the title to the property from his second wife whom he had now divorced.

In 2015, Mr. Raman appointed an agent to sell the house. The following expenditure was incurred: Valuation fee RM11,856; brokerage fee RM18,997 and advertisement charges of RM2,328 (charged to him by the agent). A prospective buyer paid a deposit of RM18,150 but this was forfeited when he failed to obtain a bank loan. The house was finally sold to Ms. Kavitha for RM800,000 vide a sale and purchase agreement dated 14/10/ 2016. Mr. Raman received the full payment on 14/11/ 2016.

Required

Determine the chargeable gain liable to tax under the Real Property Gains Tax Act 1976 (as amended) in respect of the property disposed of by Mr. Raman.

(10 marks)

[Total marks: 20]

Continued ...

QUESTION 4

(a) For each of the following situations, **explain** if the person is required to register under the Goods and Services Tax Act 2014 (as amended):

i. Mr. Subramaniam is a retired government servant. He plans to sell sometime in June 2017, a residential house that was bought 15 years ago, for RM800,000 and use the money daughter's education.

ii. Champion Transport Sdn Bhd operates a transport business providing both a stage bus services and a luxury tourist bus service. The stage bus service has a turnover of RM400,000 a year, while the luxury tourist bus service has a turnover of RM300,000 a year.

iii. Nirmala owns a mini market in Cyberjaya and a banana leaf restaurant in Putra Jaya. The annual turnover of the mini market is RM200,000 and that of the restaurant is RM400,000.

iv. David Yong is the owner of five (5) units of residential bungalows in Cyber Jaya. He rents the units to expatriates and earns a total of RM35,000 per month. He is also an accountant in a manufacturing company, and earns a salary of RM10,000 per month from his employment.

v. Ravi operates a motor repair workshop. His annual taxable turnover consists of RM420,000 being labour charges for vehicles repaired, and RM200,000 being sales of spare part in connection with the repair works carried out.

(2 marks each x 5=10 marks)

(b) In the case of *Lim Teck Lee v Commissioner of Stamps* (1956) 22 MLJ 135, it was held by Taylor J that *'the Stamp Act taxes instruments and not transactions'.*

Required:

Discuss the *obiter dicta* of Taylor J in the context of the Malaysian Stamp Act 1949 (as amended) by highlighting the salient features of the duties imposed under the said Stamp Act.

(5 marks)

(c) Nik owns a residential bungalow in Cyberjaya. She sold the bungalow to Farah on 15 May 2017 for RM1.1 million. An agreement was prepared for stamping.

Required:

What is the type of duty, and the stamp duty payable, on the agreement for the sale of the bungalow?

(5 marks)
[Total marks: 20]

QUESTION 5

(a) SM Global Lines plc ('the company') is a non-resident shipping company, carrying on the business of transporting cargo by sea. In the year 2016, the company earned a gross income of RM1,500,000 from cargo loaded at Malaysian ports.

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In 2018 [i.e. within the time period allowed under section 54 of the Income Tax Act 1967 (as amended)] the company produced a certificate from the revenue authorities of its country of residence certifying the following information (the certificate is acceptable to the Director General of the Inland Revenue of Malaysia):

Acceptable Ratio Certificate
Period: 1 January 2016 to 31 December 2016

	RM equivalent
(1) Gross world income	4,700,000
(2) Adjusted world income	3,150,000
(3) World capital allowance	750,000
(4) Gross income derived from Malaysia	1,500,000

In the basis period for the year of assessment 2016, the company made a donation of RM5,000 to an approved Malaysian charitable institution. Malaysia has a double tax agreement with the country where the company is resident. Under the said agreement, shipping income derived and charged to tax in the other country is entitled to a double tax relief of 50% on the tax charged.

Required:

Compute the tax payable of SM Global Lines plc for the year of assessment 2016 under the following methods:

(i) The 5% method; and
(ii) The Acceptable Ratio Certificate Method.
(iii) What would be your advice to SM Global Lines plc with reference to the methods to opt for?

Note: The applicable corporate tax rate for the year of assessment 2016 is 24%.

(12 marks)

(b) Kajang Maju Properties Sdn Bhd ('the company') is a local property developer. It recently ventured into a condominium project in Bangi. The Managing Director of the company has approached you with the following questions:

(i) How do you determine on the date of commencement of a property development business?

(ii) How do you determine the date of completion of a housing project?

Required:

With reference to the Income Tax Act 1967 (as amended) and the Income Tax (Property Development) Regulations 2015, advise the Managing Director on the above matters raised and its significance for Malaysian taxation purposes.

(8 marks)
[Total marks: 20]

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